

MOT CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Middletown, Delaware

FINANCIAL STATEMENTS

JUNE 30, 2005

MOT CHARTER SCHOOL
(A Component Unit of the State of Delaware)

Table of Contents

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION	2 - 9
BASIC FINANCIAL STATEMENTS SECTION	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	
- For the Year Ended June 30, 2005	11
- For the Year Ended June 30, 2004	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to Statement of Activities	16
Statement of Fiduciary Net Assets - Agency Fund	17
Notes to Financial Statements	18 - 26
REQUIRED SUPPLEMENTARY INFORMATION SECTION	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual - General Fund	27
SUPPLEMENTARY SECTION	
Combining Balance Sheet - General Fund	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund	29
Schedule of Expenditures by Natural Classification - General Fund	30
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31 - 32
Schedule of Findings and Recommendations	33

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July 29, 2005

Board of Directors
MOT Charter School
Middletown, Delaware

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of MOT Charter School (the "School"), Middletown, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information in the fund financial statements has been derived from the School's financial statements as of and for the year ended June 30, 2004 and, in our report dated August 20, 2004, we expressed an unqualified opinion on those fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of MOT Charter School as of June 30, 2005, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 2 through 9 and page 27, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MOT Charter School's basic financial statements. The schedules on pages 28-30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

BARBACANE
THORNTON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**MANAGEMENT'S DISCUSSION
AND ANALYSIS SECTION**

MOT CHARTER SCHOOL MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of MOT Charter School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2005, which is the School's third full year of operation. Please read it in conjunction with the Independent Auditors' Report on page 1 and the School's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The School's net assets increased by \$530,893, and general revenues accounted for \$4.5 million, or 93 percent, of total revenues.

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements begins on page 11 and provides detailed information about the most significant funds, not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental Funds

Most of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. Activities relating to capital assets, long-term debt and compensated absences are the primary reconciling items.

Fiduciary Funds

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can be used only for student activities. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 15. These activities are excluded from the School's other financial statements because the assets cannot be utilized by the School to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$487,081 at the close of the fiscal year. The largest portion of the School's net assets consists of unrestricted funds. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

A comparative net assets analysis of fiscal years 2005-2004 follows:

Table 1
NET ASSETS

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
ASSETS:		
Current and other assets	\$ 855,093	\$ 434,176
Capital assets, net of depreciation	<u>6,005,912</u>	<u>6,171,826</u>
TOTAL ASSETS	<u>6,861,005</u>	<u>6,606,002</u>
LIABILITIES:		
Long-term liabilities outstanding	5,945,761	6,334,364
Other liabilities	<u>428,163</u>	<u>315,450</u>
TOTAL LIABILITIES	<u>6,373,924</u>	<u>6,649,814</u>
NET ASSETS:		
Invested in capital assets, net of related debt	227,748	107,462
Unrestricted	<u>259,333</u>	<u>(151,274)</u>
TOTAL NET ASSETS	<u>\$ 487,081</u>	<u>\$ (43,812)</u>

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Cash increased as a result of an increase in receipts over expenses during the fiscal year.

**Table 2
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
REVENUES		
Program Revenues:		
Charges for services	\$ 142,977	\$ 131,875
Operating grants and contributions	223,444	197,800
General Revenues:		
Charges to school districts	1,000,795	672,296
State aid not restricted	3,467,078	2,736,459
Earnings on cash and investments	18,261	7,562
Other	<u>62,223</u>	<u>95,644</u>
TOTAL REVENUES	<u>4,914,778</u>	<u>3,841,636</u>
EXPENSES		
Instructional services	2,897,678	2,441,518
Supporting Services:		
Operation and maintenance of facilities	498,414	504,084
Transportation	430,560	337,701
School lunch service	221,407	203,632
Interest on long-term debt	<u>335,826</u>	<u>343,835</u>
TOTAL EXPENSES	<u>4,383,885</u>	<u>3,830,770</u>
CHANGES IN NET ASSETS	<u>\$ 530,893</u>	<u>\$ 10,866</u>

This year was the third full year of operations for the School. The increase in revenues during the current year was due primarily to the receipt of the federal REAP grant, as well as the approval by the State of Delaware for a waiver of the 12.5 hour requirement for special education.

The School's enrollment increased by 75 students in its third full year of operations, which led to increased funding and operating costs.

Governmental Activities

Net assets of the School's governmental activities increased by \$530,893, and unrestricted net assets reflect a positive balance of \$259,333.

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to School Districts, investment earnings and state entitlements must support the net cost of the School's programs.

	<u>2005</u>		<u>2004</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
Governmental Activities:				
Instructional services	\$2,897,678	\$2,674,234	\$2,441,518	\$2,243,718
Operation and maintenance of facilities	498,414	498,414	504,084	504,084
Transportation	430,560	430,560	337,701	337,701
School lunch service	221,407	78,430	203,632	71,757
Interest on long-term debt	<u>335,826</u>	<u>335,826</u>	<u>343,835</u>	<u>343,835</u>
Total Governmental Activities	<u>\$4,383,885</u>	<u>\$4,017,464</u>	<u>\$3,830,770</u>	<u>\$3,501,095</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$4,017,464 of support from general revenues which comprise 92.5 percent of total revenues.

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet on page 11) reported a combined liability and fund balance of \$855,093. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2005.

	<u>2005</u>	<u>2004</u>
Total Liabilities	<u>\$ 383,321</u>	<u>\$ 294,324</u>
Fund Balances:		
Reserved for encumbrances	4,712	3,140
General fund	401,953	89,759
Capital projects fund	<u>65,107</u>	<u>46,953</u>
Total Fund Balances	<u>471,772</u>	<u>139,852</u>
Total Liabilities and Fund Balances	<u>\$ 855,093</u>	<u>\$ 434,176</u>

General Funds

The School's general fund balance increase is due to many factors. The information that follows assists in illustrating the financial activities and balance of the general fund.

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>Governmental Funds</u>	
	<u>2005</u>	<u>2004</u>
REVENUES:		
Charges to school districts	\$ 1,000,795	\$ 672,296
State aid	3,521,247	2,782,268
Federal aid	167,909	146,263
Earnings on cash and investments	18,261	7,562
Contributions and other local sources	63,589	101,372
Food service	<u>142,977</u>	<u>131,875</u>
TOTAL	<u>\$ 4,914,778</u>	<u>\$ 3,841,636</u>

The largest portion of general funds expenditures is for salaries and other employment costs. The School is a service entity and as such is labor intensive.

	<u>Governmental Funds</u>	
	<u>2005</u>	<u>2004</u>
EXPENDITURES BY OBJECT:		
Salaries	\$ 1,820,159	\$ 1,547,203
Employment costs	635,089	524,586
Travel	2,145	4,911
Contractual services	202,769	169,535
Public utilities service	90,216	68,006
Insurance	16,900	17,909
Transportation - buses	430,560	337,701
Land/Building/Facilities	159,129	143,507
Repairs and maintenance	55,159	33,253
Supplies and materials	372,345	392,981
Computer software	3,109	1,213
Capital outlay - equipment	27,868	42,292
Capital outlay - property	42,981	-
Debt service - principal	388,603	185,026
Debt service - interest	<u>335,826</u>	<u>343,835</u>
TOTAL	<u>\$ 4,582,858</u>	<u>\$ 3,811,958</u>

The current year increase in expenditures at the fund level is due primarily to the addition of two new staff positions and an increase in staff salaries, as well as the completion of the science lab.

Revenues exceeded expenditures during the fiscal year resulting in an increase in fund balance.

The increase in revenues during the current year was due primarily to the receipt of the federal REAP grant, as well as the approval by the State of Delaware for a waiver of the 12.5 hour requirement for special education.

The School's enrollment increased by 75 students in its third full year of operations, which led to increased funding and operating costs.

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GENERAL FUND BUDGET INFORMATION

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. Formal budgetary integration is employed as a management control device throughout the year with monthly reports to the Board of Directors.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 27.

Revenues

1. State revenues are larger than expected because:
 - a. We originally projected the 509 money in the federal area when it is actually part of our state allocation.
 - b. We originally projected receiving less for transportation than we actually received and paid to the transportation company.
 - c. Waivers, unit count reading specialist funding and employee makeup resulted in higher funding that our original estimates did not include.
2. Local revenues are larger than expected because:
 - a. The makeup of our student body, in conjunction with the special education waiver, has resulted in additional local funds.
3. Federal revenues are less than expected because:
 - a. We originally projected the 509 money in the federal area when it is actually part of our state allocation, and a reduction in Title 4.
4. Other revenues are larger than expected because:
 - a. We received money from the state to help with the cost of mentoring.
 - b. We received money from the Children's Cost Service Recovery Program.
 - c. Other revenue appropriation is higher due to:
 - 1) Reimbursements from WSFS for field trips and other flow-through purchases
 - 2) Promissory note payments from prior auction, subsequently moved to PTO
 - 3) Universal Service Fund
 - 4) Lost book payments
 - 5) Jeans Day revenues
 - 6) Lifetouch revenues
 - 7) Boxtops for education and target programs
 - d. Cafeteria revenues were higher than expected.
 - e. Club revenues were higher than expected.
 - f. Pass-through appropriations such as school store and student government which were not in the original budget as revenues
 - g. Library and textbook grant money for 2006 was distributed early.

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Expenses

1. Salaries - over budget due to addition of new reading specialist and student conduct specialist positions, and increased salaries with the mid-year raises.
2. QECs - under budget due to the state share for health insurance for new employees not applying for the first 90 days of employment and changes made by employees in levels of coverage for various family status changes.
3. Contractual Services - over budget due to additional staff development workshops requested by staff.
4. Public Utilities Services - over budget due to additional costs for using dehumidifiers and an increase in water/sewer costs due to the delay in going to a public sewer system.
5. Transportation - over budget due to higher than expected contract costs.
6. Repairs and Maintenance - over budget due to additional costs for dehumidifying the building.
7. Facilities - over budget caused by increased cleaning costs due to the new cleaning company; increased water/sewer costs due to the delay in going to a public sewer system; increases in electricity costs due to using dehumidifiers; additional building maintenance costs due to paying the disputed Sieberlich bill for \$10,000; higher than expected costs for the new HVAC company; and lawn care.
8. Instructional Supplies - over budget due to DSTP test prep booklets and supplies for the new reading specialist, as well as additional novels, leveled books and supplemental student resource books.
9. Other Supplies - over budget due mainly to additional cafeteria expenses. Most of those extra expenses are offset by higher revenues, while some are a result of using last year's carry-over money.
10. Debt - over budget due to increase in interest rates, paying off the equipment loan and early payment of the Kershaw debt.

As the School begins its fourth year of operations, it will continue to use its historical trends based on prior year experience and anticipated future performance based on continued growth to better estimate certain budget line items.

CAPITAL ASSETS

The School has \$6,005,912 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$67,216. The majority of the acquisitions were for completion of the School's science lab. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

**MOT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

LONG-TERM DEBT

At the end of the current fiscal year, MOT Charter School has total debt outstanding of \$5,945,761. This majority of the debt is a direct result of the construction of the new school facility located in Middletown, Delaware. This debt is split 50/50 between the Wilmington Savings Fund Society and the U.S. Department of Agriculture, and the school building is held as collateral against these loans.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2005 was the third year of operation as a functioning school. The financial model the School has developed is based on the funding formula currently in effect under the Delaware Charter School law. If the funding formula for charter schools changes, adjustments to the underlying assumptions of the model will have to be made.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's Business Manager at (302) 376-5125.

BASIC FINANCIAL STATEMENTS SECTION

MOT CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 855,093	\$ 408,557
Due from other governments	<u>-</u>	<u>25,619</u>
Total Current Assets	<u>855,093</u>	<u>434,176</u>
Noncurrent Assets:		
Land	75,000	75,000
Capital assets, net of depreciation	<u>5,930,912</u>	<u>6,096,826</u>
Total Noncurrent Assets	<u>6,005,912</u>	<u>6,171,826</u>
TOTAL ASSETS	<u>\$6,861,005</u>	<u>\$6,606,002</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ -	\$ 18,515
Accrued salaries	336,946	245,947
Due to State of Delaware - pension costs	46,375	29,862
Notes payable	<u>183,279</u>	<u>267,585</u>
Total Current Liabilities	<u>566,600</u>	<u>561,909</u>
Noncurrent Liabilities:		
Compensated absences	44,842	21,126
Notes payable	<u>5,762,482</u>	<u>6,066,779</u>
Total Noncurrent Liabilities	<u>5,807,324</u>	<u>6,087,905</u>
TOTAL LIABILITIES	<u>6,373,924</u>	<u>6,649,814</u>
NET ASSETS:		
Invested in capital assets, net of related debt	227,748	107,462
Unrestricted	<u>259,333</u>	<u>(151,274)</u>
TOTAL NET ASSETS	<u>487,081</u>	<u>(43,812)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$6,861,005</u>	<u>\$6,606,002</u>

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Supporting services:					
Operation and maintenance of facilities	(498,414)	-	-	-	(498,414)
Transportation	(430,560)	-	-	-	(430,560)
Food service	(221,407)	142,977	-	-	(78,430)
Interest on long-term debt	(335,826)	-	-	-	(335,826)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(4,383,885)</u>	<u>\$ 142,977</u>	<u>\$ 223,444</u>	<u>\$ -</u>	<u>\$(4,017,464)</u>
GENERAL REVENUES					
Charges to school districts					1,000,795
Payments from primary government					3,467,078
Earnings on cash and investments					18,261
Other local sources					62,223
TOTAL GENERAL REVENUES					<u>4,548,357</u>
CHANGE IN NET ASSETS					530,893
NET ASSETS, BEGINNING OF YEAR					<u>(43,812)</u>
NET ASSETS, END OF YEAR					<u>\$ 487,081</u>

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Supporting services:					
Operation and maintenance of facilities	(504,084)	-	-	-	(504,084)
Transportation	(337,701)	-	-	-	(337,701)
Food service	(203,632)	131,875	-	-	(71,757)
Interest on long-term debt	(343,835)	-	-	-	(343,835)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(3,830,770)</u>	<u>\$ 131,875</u>	<u>\$ 197,800</u>	<u>\$ -</u>	<u>\$(3,501,095)</u>
GENERAL REVENUES					
Charges to school districts					672,296
Payments from primary government					2,736,459
Earnings on cash and investments					7,562
Other local sources					95,644
TOTAL GENERAL REVENUES					<u>3,511,961</u>
CHANGE IN NET ASSETS					10,866
NET ASSETS, BEGINNING OF YEAR					<u>(54,678)</u>
NET ASSETS, END OF YEAR					<u>\$ (43,812)</u>

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Capital Projects	Totals	
			2005	2004
ASSETS				
Cash and cash equivalents	\$ 789,986	\$ 65,107	\$ 855,093	\$ 408,557
Due from other governments	-	-	-	25,619
TOTAL ASSETS	<u>\$ 789,986</u>	<u>\$ 65,107</u>	<u>\$ 855,093</u>	<u>\$ 434,176</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ 18,515
Accrued salaries	336,946	-	336,946	245,947
Due to State of DE - pension costs	<u>46,375</u>	-	<u>46,375</u>	<u>29,862</u>
Total Liabilities	<u>383,321</u>	-	<u>383,321</u>	<u>294,324</u>
FUND BALANCES:				
Reserved for encumbrances	4,712	-	4,712	3,140
Reserved for:				
General fund - textbooks/library	50,749	-	50,749	38,683
Capital projects	-	65,107	65,107	46,953
Unreserved:				
General fund	<u>351,204</u>	-	<u>351,204</u>	<u>51,076</u>
Total Fund Balances	<u>406,665</u>	<u>65,107</u>	<u>471,772</u>	<u>139,852</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 789,986</u>	<u>\$ 65,107</u>	<u>\$ 855,093</u>	<u>\$ 434,176</u>

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2005

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 471,772
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.	6,005,912
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Long-term liabilities applicable to governmental activities are not due and payable in the current year and, accordingly, are not reported as fund liabilities. Those liabilities consist of:

Compensated absences	(44,842)	
Notes payable and capital lease	<u>(5,945,761)</u>	<u>(5,990,603)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>487,081</u>
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The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Capital Projects	Totals	
			2005	2004
REVENUES				
Charges to school districts	\$1,000,795	-	\$1,000,795	\$ 672,296
Charges for services	142,977	-	142,977	131,875
State aid	3,521,247	-	3,521,247	2,782,268
Federal aid	167,909	-	167,909	146,263
Earnings on cash and investments	17,894	367	18,261	7,562
Contributions	1,366	-	1,366	5,728
Other local sources	62,223	-	62,223	95,644
TOTAL REVENUES	<u>4,914,411</u>	<u>367</u>	<u>4,914,778</u>	<u>3,841,636</u>
EXPENDITURES				
Current:				
Instructional services	2,773,803	-	2,773,803	2,328,495
Operation and maintenance of facilities	347,536	-	347,536	354,084
Transportation	430,560	-	430,560	337,700
Accounting and auditing	14,274	-	14,274	16,894
Food services	221,407	-	221,407	203,632
Capital outlays:				
Equipment	27,868	-	27,868	42,292
Property	42,981	-	42,981	-
Debt service:				
Principal	388,603	-	388,603	185,026
Interest	335,826	-	335,826	343,835
TOTAL EXPENDITURES	<u>4,582,858</u>	<u>-</u>	<u>4,582,858</u>	<u>3,811,958</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>331,553</u>	<u>367</u>	<u>331,920</u>	<u>29,678</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	17,787	17,787	25,872
Transfers out	(17,787)	-	(17,787)	(25,872)
Proceeds from financing	-	-	-	270,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(17,787)</u>	<u>17,787</u>	<u>-</u>	<u>270,000</u>
NET CHANGE IN FUND BALANCES	313,766	18,154	331,920	299,678
FUND BALANCES, BEGINNING OF YEAR	92,899	46,953	139,852	(159,826)
FUND BALANCES, END OF YEAR	<u>\$ 406,665</u>	<u>\$ 65,107</u>	<u>\$ 471,772</u>	<u>\$ 139,852</u>

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 331,920

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlays	\$ 67,216	
Depreciation Expense	<u>(233,130)</u>	(165,914)

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Payment of note principal	388,603
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(23,716)</u>
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 530,893</u>
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The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND
JUNE 30, 2005

	Student Activities <u>Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 40,621</u>
LIABILITIES	
Due to student groups	<u>\$ 40,621</u>

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

MOT Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The financial statements of MOT Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of MOT Charter School (the "School") are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to the school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- **Capital Projects Fund.** Accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodeling of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

Additionally, the School reports the following fund type:

- **Student Activities Agency Fund** (a fiduciary fund). Accounts for assets held on behalf of student groups.

Amounts reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and Cash Equivalents

The School's cash and investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans). At June 30, 2005, the School had no such activity.

Advances between funds, when present, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and fixtures	7 years
Buildings	40 years
Equipment	5-10 years

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Sick Leave - Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 120 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 120 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 120 days.

The compensated absences liability was \$44,842 and \$21,126 at June 30, 2005 and 2004, respectively.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2004 basic financial statements to be comparative with the current year presentation.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2005, the School has a cash equivalent balance of \$895,714. Of that amount, \$789,986 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

At June 30, 2005, the reported amount of the School's deposits not held with the State Treasurer's Office was \$105,728 and the bank balance was \$105,880. Of the balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$5,880 was not insured or collateralized and, therefore, was subject to custodial credit risk.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is as follows:

Governmental Activities:	Balances 7/01/04	Increases	(Decreases)	Balances 6/30/05
General capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Total general capital assets not being depreciated	75,000	-	-	75,000

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

Governmental Activities:				
	<u>Balances</u>			<u>Balances</u>
	<u>7/01/04</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>6/30/05</u>
General capital assets				
being depreciated:				
Buildings and improvements	6,000,000	42,146	-	6,042,146
Equipment	299,376	25,070	-	324,446
Furniture and fixtures	<u>155,042</u>	<u>-</u>	<u>-</u>	<u>155,042</u>
Total general capital assets				
being depreciated	6,454,418	67,216	-	6,521,634
Accumulated depreciation	<u>(357,592)</u>	<u>(233,130)</u>	<u>-</u>	<u>(590,722)</u>
Total general capital assets				
being depreciated, net	<u>6,096,826</u>	<u>(165,914)</u>	<u>-</u>	<u>5,930,912</u>
Governmental Activities, Net	<u>\$6,171,826</u>	<u>\$ (165,914)</u>	<u>\$ -</u>	<u>\$6,005,912</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 82,252
Operation and maintenance of facilities	<u>150,878</u>
	<u>\$ 233,130</u>

NOTE 4 LONG-TERM DEBT

WSFS and USDA Loan

In December 2001, MOT Charter School obtained a loan in the amount of \$3,000,000 at an interest rate of 6.75 percent to construct a one-story, 55,000 square foot school building. In March 2002, the School obtained an additional loan in the amount of \$3,000,000 at an interest rate of 4.75 percent from the USDA to aid in the construction of the school building. As of June 30, 2004, the School has drawn down all of the funds available. These loans mature September 2022 through March 2032.

Middletown Greenways Loan

In March 2002, MOT Charter School obtained a loan in the amount of \$60,000. This loan was used to purchase land situated in the Town of Middletown for use as part of the School site. This loan matures in March 2006. The loan is noninterest bearing; however, it has been discounted at an imputed interest rate of five percent.

WSFS Computer Loan

In December 2002, MOT Charter School obtained a loan in the amount of \$284,156 to purchase computers and computer networking equipment within the School. The loan was paid off during the current year.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

Insurance Premium Loan

In June 2003, the Rodell Corporation made a loan of \$7,186 to cover the cost of insurance premiums for salaried employees. This loan is noninterest bearing; however, it has been discounted at an imputed interest rate of five percent.

WSFS Loan

In April 2004, MOT Charter School obtained a loan in the amount of \$270,000 to assist with completion of the science lab and unexpected building repair costs within the School. The loan is being amortized over 60 months and matures in April 2009; the interest rate is prime rate plus one percent.

An analysis of debt service requirements to maturity on these obligations follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 183,279	\$ 326,261
2007	218,508	326,875
2008	215,536	314,847
2009	218,964	300,366
2010	178,694	288,395
2011-2015	1,074,535	1,260,908
2016-2020	1,457,034	878,409
2021-2025	1,282,496	406,718
2026-2030	793,828	176,372
2031-2032	322,887	14,164
	<u>\$ 5,945,761</u>	<u>\$ 4,293,315</u>

A schedule of changes in debt is as follows:

	<u>Outstanding 7/01/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 6/30/2005</u>	<u>Amounts Due within One Year</u>
Governmental activities:					
Notes payable	\$6,334,364	\$ -	\$ (388,603)	\$5,945,761	\$183,279
Compensated absences	21,126	23,716	-	44,842	-
Total Governmental Activities	<u>\$6,355,490</u>	<u>\$ 23,716</u>	<u>\$ (388,603)</u>	<u>\$5,990,603</u>	<u>\$183,279</u>

NOTE 5 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan, which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the year ended June 30, 2005 was \$233,352.

NOTE 6 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMITMENTS AND CONTINGENCIES (cont'd)

Grants

The School receives significant financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

NOTE 8 REQUIRED PRIMARY GOVERNMENT DISCLOSURES

The primary government requires a classification of receipts which differs from generally accepted accounting principles at the component unit/charter school level. The following are condensed government-wide financial statements as of and for the years ended June 30, 2005 and 2004:

STATEMENT OF NET ASSETS
(Amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 855	\$ 409
Due from primary government	<u> -</u>	<u> 26</u>
Total Current Assets	<u> 855</u>	<u> 435</u>
Noncurrent assets:		
Capital assets, net of depreciation	5,931	6,097
Other noncurrent assets	<u> 75</u>	<u> 75</u>
Total Noncurrent Assets	<u> 6,006</u>	<u> 6,172</u>
TOTAL ASSETS	<u> 6,861</u>	<u> 6,607</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	-	19
Accrued liabilities	337	246
Due to State of Delaware - pension costs	46	30
Current portion of long-term debt	<u> 183</u>	<u> 268</u>
Total Current Liabilities	<u> 566</u>	<u> 563</u>

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 8 REQUIRED PRIMARY GOVERNMENT DISCLOSURES (cont'd)

STATEMENT OF NET ASSETS
(Amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>
Noncurrent liabilities:		
Compensated absences	45	21
Notes payable	<u>5,762</u>	<u>6,067</u>
Total Noncurrent Liabilities	<u>5,807</u>	<u>6,088</u>
 TOTAL LIABILITIES	 <u>6,373</u>	 <u>6,651</u>
 NET ASSETS:		
Invested in capital assets, net	228	107
Unrestricted	<u>259</u>	<u>(151)</u>
 TOTAL NET ASSETS	 <u>\$ 487</u>	 <u>\$ (44)</u>

STATEMENT OF ACTIVITIES
(Amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>
Total Expenses	\$ (4,384)	\$ (3,831)
Program Revenues:		
Charges for services	<u>143</u>	<u>132</u>
Net (Expenses) Revenues	<u>(4,241)</u>	<u>(3,699)</u>
 General Revenues:		
Payments from primary governments	4,692	3,606
Investment earnings	18	8
Miscellaneous	<u>62</u>	<u>96</u>
Total General Revenues	<u>4,772</u>	<u>3,710</u>
 CHANGE IN NET ASSETS	 531	 11
 NET ASSETS, BEGINNING OF YEAR	 <u>(44)</u>	 <u>(55)</u>
 NET ASSETS, END OF YEAR	 <u>\$ 487</u>	 <u>\$ (44)</u>

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MOT CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				(Over)
				(Under)
REVENUES				
Charges to school districts	\$ 776,299	\$ 776,299	\$1,000,795	\$ 224,496
Charges for services	128,771	128,771	142,977	14,206
State aid	3,097,101	3,097,101	3,521,247	424,146
Federal aid	176,127	176,127	167,909	(8,218)
Earning on cash and investments	-	-	18,261	18,261
Contributions	2,800	2,800	1,366	(1,434)
Other local sources	27,594	27,594	62,223	34,629
TOTAL REVENUES	<u>4,208,692</u>	<u>4,208,692</u>	<u>4,914,778</u>	<u>706,086</u>
EXPENDITURES				
Current:				
Salaries	1,670,108	1,670,108	1,820,159	(150,051)
Employment costs	649,552	649,552	635,089	14,463
Travel	4,680	4,680	2,145	2,535
Contractual services	168,110	168,110	202,769	(34,659)
Public utilities service	71,350	71,350	90,216	(18,866)
Insurance	26,900	26,900	16,900	10,000
Transportation - buses	400,000	400,000	430,560	(30,560)
Land/building/facilities	132,089	132,089	159,129	(27,040)
Repairs and maintenance	6,000	6,000	55,159	(49,159)
Supplies and materials	341,173	341,173	372,345	(31,172)
Computer/word processing software	3,924	3,924	3,109	815
Capital outlays:				
Equipment	33,500	33,500	27,868	5,632
Property	66,154	66,154	42,981	23,173
Debt Service:				
Principal	245,596	245,596	388,603	(143,007)
Interest	333,831	333,831	335,826	(1,995)
TOTAL EXPENDITURES	<u>4,152,967</u>	<u>4,152,967</u>	<u>4,582,858</u>	<u>(429,891)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>55,725</u>	<u>55,725</u>	<u>331,920</u>	<u>276,195</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	17,787	17,787
Transfers out	-	-	(17,787)	(17,787)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>55,725</u>	<u>55,725</u>	<u>331,920</u>	<u>276,195</u>
FUND BALANCES, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>139,852</u>	<u>139,852</u>
FUND BALANCES, END OF YEAR	<u>\$ 55,725</u>	<u>\$ 55,725</u>	<u>\$ 471,772</u>	<u>\$ 416,047</u>

NOTE: The school's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTARY SECTION

MOT CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2005

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 52,235	\$ 737,751	\$ -	\$ 789,986
TOTAL ASSETS	<u>\$ 52,235</u>	<u>\$ 737,751</u>	<u>\$ -</u>	<u>\$ 789,896</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accrued salaries	\$ -	\$ 336,946	\$ -	\$ 336,946
Due to State of Delaware - pension costs	-	<u>46,375</u>	-	<u>46,375</u>
Total Liabilities	<u>-</u>	<u>383,321</u>	<u>-</u>	<u>383,321</u>
FUND BALANCES:				
Reserved for encumbrances	62	4,650	-	4,712
Restricted for:				
General fund - textbooks/library	50,749	-	-	50,749
Unreserved:				
General fund	<u>1,424</u>	<u>349,780</u>	-	<u>351,204</u>
Total Fund Balances	<u>52,235</u>	<u>354,430</u>	<u>-</u>	<u>406,665</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 52,235</u>	<u>\$ 737,751</u>	<u>\$ -</u>	<u>\$ 789,896</u>

MOT CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
REVENUES				
Charges to school districts	\$ -	\$1,000,795	\$ -	\$1,000,795
Charges for services	-	142,977	-	142,977
State aid	3,521,247	-	-	3,521,247
Federal aid	-	-	167,909	167,909
Earning on cash and investments	-	17,894	-	17,894
Contributions	-	1,366	-	1,366
Other local sources	-	62,223	-	62,223
TOTAL REVENUES	<u>3,521,247</u>	<u>1,225,255</u>	<u>167,909</u>	<u>4,914,411</u>
EXPENDITURES				
Current:				
Instructional services	2,090,824	515,070	167,909	2,773,803
Operation and maintenance of facilities	306,453	41,083	-	347,536
Transportation	430,290	270	-	430,560
Accounting and auditing	14,274	-	-	14,274
Food services	58,484	162,923	-	221,407
Capital Outlays:				
Equipment	23,735	4,133	-	27,868
Property	-	42,981	-	42,981
Debt service:				
Principal	248,572	140,031	-	388,603
Interest	317,276	18,550	-	335,826
TOTAL EXPENDITURES	<u>3,489,908</u>	<u>925,041</u>	<u>167,909</u>	<u>4,582,858</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>31,339</u>	<u>300,214</u>	<u>-</u>	<u>331,553</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(17,787)	-	-	(17,787)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(17,787)</u>	<u>-</u>	<u>-</u>	<u>(17,787)</u>
NET CHANGE IN FUND BALANCES	13,552	300,214	-	313,766
FUND BALANCES, BEGINNING OF YEAR	<u>38,683</u>	<u>54,216</u>	<u>-</u>	<u>92,899</u>
FUND BALANCES, END OF YEAR	<u>\$ 52,235</u>	<u>\$ 354,430</u>	<u>\$ -</u>	<u>\$ 406,665</u>

MOT CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

EXPENDITURES

Current:

Salaries	\$1,820,159
Employment costs	635,089
Travel	2,145
Contractual services	202,769
Public utilities service	90,216
Insurance	16,900
Transportation - buses	430,560
Land/building/facilities	159,129
Repairs and maintenance	55,159
Supplies and materials	372,345
Computer/word processing software	3,109

Capital Outlays:

Equipment	27,868
Property	42,981

Debt Service:

Principal	388,603
Interest	<u>335,826</u>

TOTAL EXPENDITURES	<u>\$4,582,858</u>
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Media, Pennsylvania
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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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July 29, 2005

Board of Directors
MOT Charter School
Middletown, Delaware

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of MOT Charter School, Middletown, Delaware as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MOT Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MOT Charter School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
MOT Charter School

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

MOT CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.